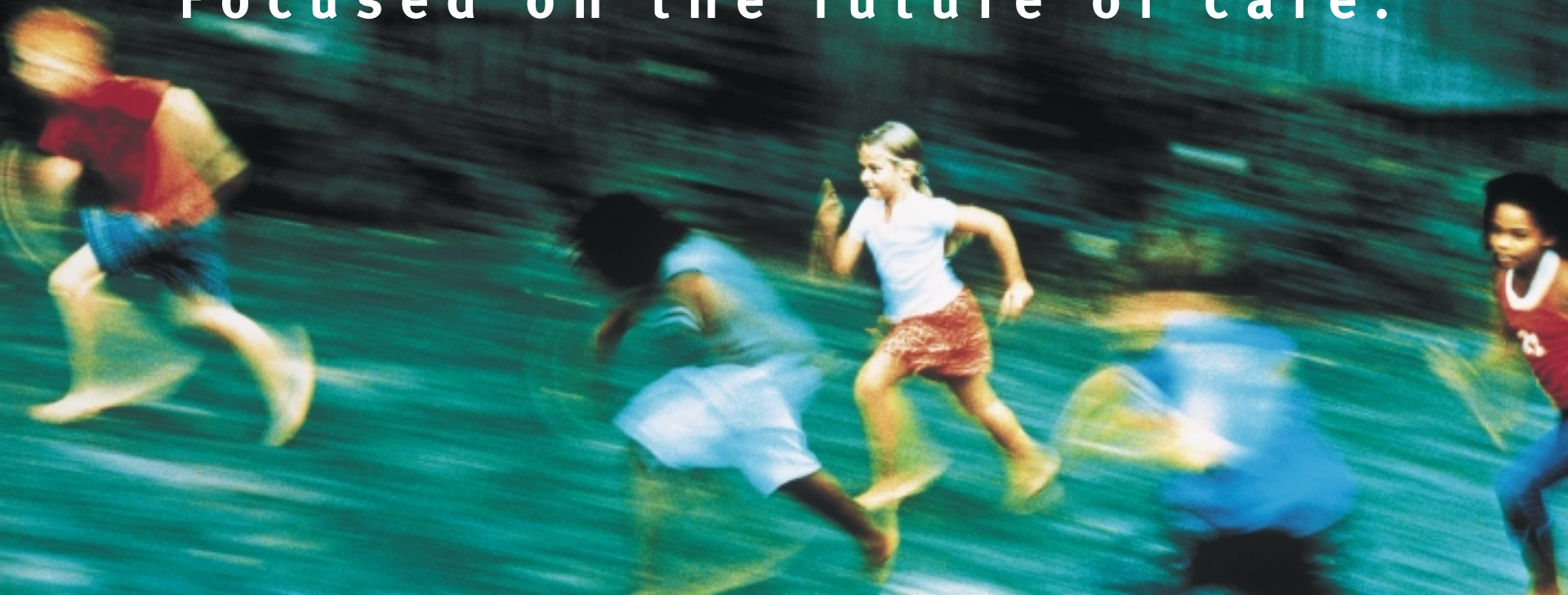


F o c u s e d   o n   t h e   f u t u r e   o f   c a r e .



Y o u r   M i n d .   Y o u r   B o d y .   Y o u r   S p i r i t .   Y o u r   H e a l t h .



A n n u a l   R e p o r t   o f   C a r e F i r s t ,   I n c .   2 0 0 0



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# Our Promise

CareFirst BlueCross BlueShield  
helps you achieve and maintain  
the best possible state of health.  
We are making health care easier.

## Care for...Your Mind, Body, Spirit, Health.

The uncertainties of life in today's busy and challenging world suggest one simple truth: there has never been a better time to be a CareFirst BlueCross BlueShield (CareFirst) member. Health care is changing. No longer do we focus only on what happened and what we can do to ease the pain and worry associated with injury, illness and disease. Today, our focus is on helping our members explore new strategies for good health. By expanding options for fitness and personal development, by encouraging habits of good health, and by empowering those we serve with new channels of information, we are fulfilling our promise to help CareFirst members achieve and maintain the best possible state of health.

Our focus is on the future of health care. Our goal is to share that future with each of our members – to reassure them, to help keep them strong, and to support their sense of well being – in mind, in body, in spirit and in good health.



# Message

## From the Chairman of the Board

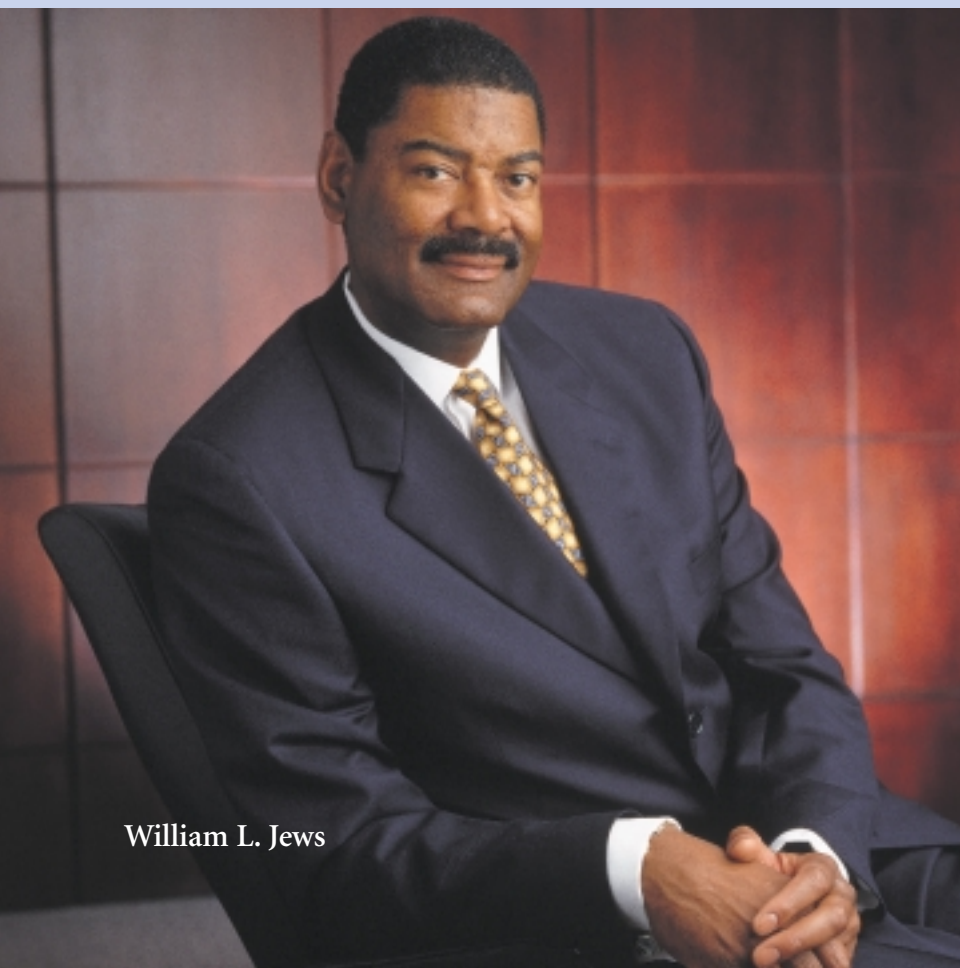
Following the pattern of recent CareFirst annual reports, this report looks to the future and anticipates what our company must do to meet the needs of our customers in the years ahead. In recent months, we have seen the application of innovative technology that will change the way our company conducts business and interacts with customers and medical professionals. We also have seen new approaches to care and a broader definition of what it means to be a health care company. It is important to remember that the ambitious progress we review in this report – the new products that expand our member's care choices, the lowered administrative costs and the introduction of e-commerce technology – is more than just our future. It is also our present, our here and now. CareFirst associates are doing today what they aspire to do still better in the years ahead. That's why we approach the challenges before us with such confidence. Those challenges, while formidable, are no greater than those we already have overcome. CareFirst is focused on the future of health care because we have seen its potential and understand what it takes to make it a reality.



Daniel J. Altobello  
*Chairman of the Board*



Daniel J. Altobello



William L. Jews

# Message

## From the President and Chief Executive Officer

CareFirst today is a different company from the one reviewed in our report 12 months ago. The year just past was one of significant change as CareFirst grew stronger in the marketplace, prepared for the age of e-commerce and adopted a more flexible strategy for providing our members with quality health care that is both affordable and accessible.

In focusing on the future, we see the pace of change in health care accelerating. For that reason alone, our ability to accept new ways of doing business, to meet higher standards of performance, and to be a leader in putting customers first will ultimately define how successful we will be in the years just ahead.

Faced with similar challenges in the past, CareFirst associates have responded remarkably well. Through their efforts in 2000, the company again posted significant gains in membership, revenues and reserves, improved the efficiency of administrative operations and for the fourth year in a row won the prestigious Blue Cross and Blue Shield Association's "Brand Excellence Award."

As we move forward in 2001 to address the changing demands of our regional marketplace, CareFirst is realizing the anticipated benefits and synergies of the business affiliations that brought together the Blue Cross and Blue Shield plans in Washington, D.C. and Maryland. We anticipate that the affiliation with Blue Cross Blue Shield of Delaware in 2000 will continue to provide opportunities to support our customers throughout the region. Ultimately, we will realize our goal of offering our members a regional network of health care resources – physicians, hospitals and other medical professionals. We also continued our efforts to empower our members, working with their physicians, to assume greater control over decisions affecting their health care.

As CareFirst expands into new markets, we take with us a long tradition of community involvement. We are especially proud of our comprehensive awareness and education programs to encourage childhood immunization and control asthma, diabetes and breast cancer. The company also introduced in 2000 a new prescription program for seniors in rural areas. CareFirst will continue to be an active citizen in the communities we serve, helping those with whom we live and work to understand and use the most effective means possible to achieve and maintain good health.

As suggested by the theme of this report, we accept that responsibility in the broadest possible context – encompassing the Mind, the Body, the Spirit, and the Health of the members we serve. We also accept the reality that new challenges and greater demands will confront CareFirst as we move forward. Whatever those challenges and uncertainties, we will continue to support our members – always protecting their interests as we make it easier for them to access and to understand their health care.

The many achievements of CareFirst associates in 2000 are evidence of this commitment. I remain sincerely grateful for their support and that of the governing board for the company's record of outstanding performance.



William L. Jews  
*President and Chief Executive Officer*





## Enrollment by Product

**Total 2,997,312**

<b>PPO<sup>1</sup></b>	<b>47%</b>	<b>1,408,737</b>
<b>Indemnity</b>	<b>23%</b>	<b>689,382</b>
<b>HMO</b>	<b>12%</b>	<b>359,677</b>
<b>POS<sup>2</sup></b>	<b>10%</b>	<b>299,731</b>
<b>Other</b>	<b>8%</b>	<b>239,785</b>

<sup>1</sup>Preferred Provider Organization    <sup>2</sup>Point-of-Service Coverage



**Your Mind.**

The challenges ahead for CareFirst are rooted in change and focus – how does the company respond to the shifting winds that continue to alter the course of medicine and the economics of health care? And how does it remain focused on maintaining long traditions of care and service, in a competitive atmosphere that demands greater efficiency and costly, new technology?

The year just completed provided several significant examples that demonstrate CareFirst's capacity to accommodate change while, at the same time, respecting its commitment to remain focused on the needs of our members:

**Throughout 2000, we made substantial investments in new technology and information management, essential for CareFirst to be competitive in the emerging world of e-commerce.**

**In March, we completed the affiliation with Blue Cross Blue Shield of Delaware.**

**In November, we completed the acquisition of Preferred Health Network (PHN), adding 85,500 new members to the CareFirst family and an innovative "triple-option" product to our managed care portfolio.**

**Throughout the year, CareFirst remained focused on serving customers – improving telephone response systems, introducing new on-line health care services and continually reviewing and updating procedures to make health care easier.**

The company already is recognizing significant benefits from its affiliation with Blue Cross Blue Shield of Delaware. Projected membership growth in Delaware and additional synergies of that business combination are expected to add nearly \$4 million to CareFirst's net income in 2001. CareFirst also continues to benefit from its dominant market position among Federal employees as a result of the 1998 affiliation of the Maryland and Washington-area Blue Cross and Blue Shield plans.

Most importantly, CareFirst is building on a firm financial base – 33 consecutive quarters of profitable operations through year-end 2000. With a market share that represents 40 percent of the insurable population in the CareFirst service area, the company's financial stability is deeply rooted in its membership base.

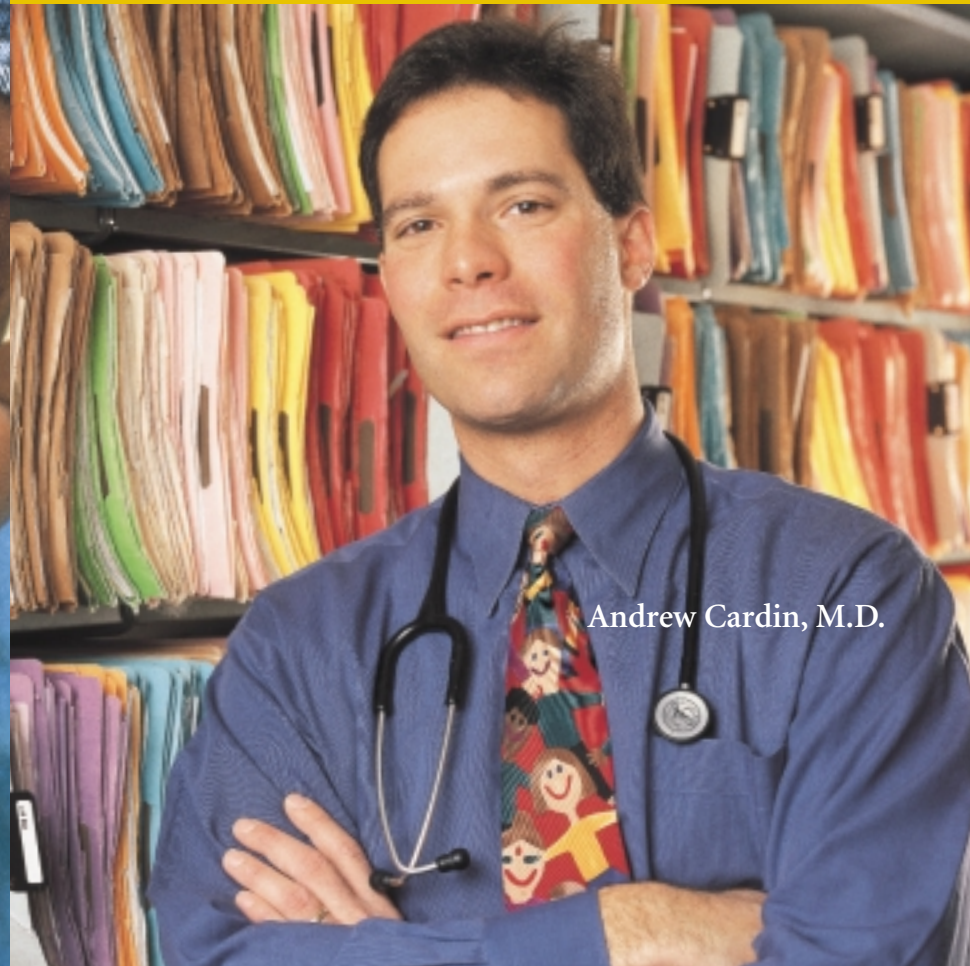
Preferred  
Health  
Networks



A close-up photograph of a young child with dark skin and short hair, smiling broadly and showing their teeth. The child is wearing a light-colored t-shirt. They are being held by an adult whose hands are visible, one near the child's head and another near their chest. The background is a blue and white plaid fabric.

# Your Body.

Each working day in 2000, CareFirst enrolled an average of 2,690 new members. Each new member received a packet of information about the company and about his or her personal benefits plan. Each new member also received a CareFirst Membership Card – a personal reminder that the resources of good health are always close at hand.



Andrew Cardin, M.D.



## To ease the Mind, heal the Body, lift the Spirit...promote good Health.

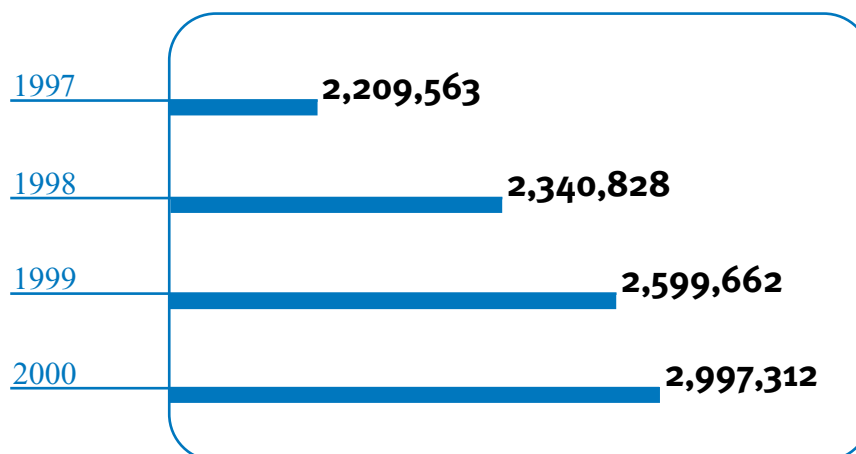
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Each working day, telephones ring more than 30,000 times in CareFirst offices. Each day, our members come to us with problems, inquiries and specific requests for assistance in regaining or maintaining their good health.

CareFirst's goal in 2001 is to achieve what we term "first call resolution" on 85 percent of the calls received each business day. In addition, we continue to develop a self-service health "infomart" and other on-line resources as part of a comprehensive e-commerce response system. Ultimately, customers will be able to go on-line to review their benefits, submit and track the status of claims and obtain an explanation of benefits at the time medical services are rendered – 24 hours a day, seven days a week.

CareFirst again posted one of the industry's lowest administrative expense ratios in 2000, with only 9 cents of every revenue dollar allocated to processing claims, serving our members and funding other business operations. Continued investment in new information management technology and more streamlined customer service is designed to further reduce the cost of administering member benefits.

### CareFirst Membership



# Service

**3,600**


**Primary Care  
Physicians**

**30,000**

**Participating  
Physicians, Dentists  
and other medical  
professionals**



# Your Spirit.



In an age of new technology, miracle drugs and increasingly sophisticated medical procedures, CareFirst remains committed to meeting the needs of people. From more than 60 years of experience we have learned that the essence of enlightened health care goes beyond medicine and includes personal attention to individual needs, listening and a dependable presence when those we serve need us most.



## Caring for your Mind, Body and Spirit... CareFirst remains Innovative, Flexible, Competent.

Evidence continues to mount that good health depends on more than competent doctors and excellent hospitals. Good health is a state of mind, a sound body and a spirited lifestyle. Helping our members achieve those objectives requires innovative approaches, flexible management of resources and competent associates willing to let go of old ways in favor of new and more effective ones. CareFirst continues to expand the range of non-traditional health care choices for members, adding yoga classes to the CareFirst Options network that provides discounts for acupuncture, massage therapy, chiropractic care and personal fitness training.

To maintain sound corporate health, CareFirst looks to a management philosophy that values innovation, flexibility, integrity and the importance of putting customers first. Faced with inadequate federal reimbursements, CareFirst reluctantly joined insurers in 33 states last year in withdrawing its deficit-plagued Medicare HMO product from the

market. Similar heavy financial losses in the State of Maryland's Medicaid managed care initiative forced CareFirst to exit much of that market at year's end as well. With cumulative losses over five years in those programs approaching \$41 million, we concluded that it was unfair to ask our commercial subscribers to further subsidize, through higher premiums, the failure of these public sector programs to cover the actual costs of providing health care for their members.

Despite these difficult decisions, CareFirst continues to do its part in other ways to assist seniors and the poor. For example, working with the Maryland legislature, CareFirst has pledged \$8.8 million over two years to subsidize a new prescription drug program for seniors in rural counties of Maryland. And, CareFirst is contributing \$100,000 to equip a clinic serving the dental needs of the poor on Maryland's Eastern Shore.

## Managing Disease

**Preventing and managing disease empowers our members. It gives them a role in maintaining their own good health and rewards them with a more active and satisfying quality of life. CareFirst will expand its comprehensive educational and case management programs for members in 2001 by adding cardiovascular disease to currently successful programs that target diabetes and asthma.**



Virginia R. Lee, R.N.  
Dawn Hudgins, R.N.





**Your Health.**

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## CareFirst Highlights

### JANUARY

- CareFirst traverses Y2K chronos barrier with all operations functioning.
- CareFirst sponsors record food drive for Maryland's Harvest for the Hungry with \$50,000 gift of personal care items for homeless.

### FEBRUARY

- CareFirst negotiates limits on Maryland hospital rate increases, reducing members' care costs.

### MARCH

- Blue Cross Blue Shield of Delaware, with 207,000 members, formally becomes CareFirst affiliate.

### APRIL

- CareFirst associates go on-line for up-to-the-minute news and information through new intranet newsletter, *insidecarefirst.com*.
- Maryland Small Business Advisory Council presents Economic Impact Development Award to CareFirst President and CEO William L. Jews for "distinguished career, civic commitment and outstanding accomplishments."



## MAY

■ *Hospitals and Health Networks* magazine names Blue Cross Blue Shield of Delaware one of nation's 10 "Most Wired" health plans.



■ CareFirst wins Blue Cross and Blue Shield Association's "Best of Show" honors for marketing campaign launching "CareFirst Options" program.



## JUNE

■ CareFirst introduces My Care First, an interactive, on-line health information resource on [www.carefirst.com](http://www.carefirst.com).



## JULY

■ Blue Cross Blue Shield of Delaware, teaming with CareFirst, wins AstraZeneca Corporation account, adding 2,300 new members to CareFirst family.

## AUGUST

■ CareFirst's \$30,000 gift expands American Lung Association's "Open Airways" program in Washington, D.C. schools, helping students in Grades 3 through 6 cope with their asthma.

## SEPTEMBER

■ CareFirst HMOs CapitalCare, FreeState and Delmarva Health Plan garner top ratings from Maryland Health Care Commission. FreeState and Delmarva named "star performers" for repeated high scores.

■ More than 320 associates join Juvenile Diabetes Foundation Walk to Cure in Delaware, raising more than \$50,000 to combat juvenile diabetes.

## OCTOBER

■ Blue Cross and Blue Shield Association presents CareFirst with prestigious "High Performance/Low Cost" Award for excellent service to Federal Employees Health Plan members.

■ Third-party administration affiliate CareFirst Administrators moves to new home near Owings Mills corporate headquarters.

■ CareFirst contributes \$50,000 and 200 associates take part in annual Susan G. Komen Breast Cancer Foundation “Race for the Cure” in Baltimore, which raised more than \$1 million for breast cancer research.

## NOVEMBER

■ FreeState and two of the managed care plans of the Delaware affiliate earn National Committee for Quality Assurance’s “excellent” rating, the group’s highest accreditation.

■ CareFirst and its associates give more than \$685,000 to the 2000 United Way Campaign.

■ CareFirst acquires Preferred Health Network, with 85,500 members in the Baltimore-Washington region.

■ Loyola College’s Seller School for Business and Management names CareFirst President and CEO William L. Jew its “Business Leader of the Year.”

## DECEMBER

■ For fourth year in a row, CareFirst’s market growth, financial strength and high standards of customer service earn the Blue Cross and Blue Shield Association’s coveted Brand Excellence Award for promoting customer loyalty to the Blue Cross and Blue Shield brand names.

■ *West Virginia Family Magazine* lists Capital Area Services Company, Inc. (CASCI), the CareFirst subsidiary in Charleston, among West Virginia’s most family-friendly places to work.





## CareFirst in Brief

CareFirst, Inc., is a not-for-profit holding company chartered in the State of Maryland to operate through three wholly owned affiliates: CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc., doing business as CareFirst BlueCross BlueShield; and Blue Cross Blue Shield of Delaware, Inc. All three affiliates are independently licensed by the Blue Cross and Blue Shield Association to market health insurance and related services and products throughout the Mid-Atlantic Region, including Maryland, Delaware, Washington, D.C., and Northern Virginia.

CareFirst, including its affiliates and subsidiaries, served nearly 3 million members in 2000. The company's 6,300 associates, many of whom provide direct medical care to CareFirst members, staff 40 CareFirst office sites in five states and the District of Columbia.

As set forth in this report, the company had combined net income of \$63.8 million in 2000 on overall revenues of \$5 billion. CareFirst's overall reserves, under generally accepted accounting principles, rose to \$692 million by year-end 2000.

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